

Message Text

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ACTION ARA-14

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SUBJECT: GOP ANNOUNCES NEW ECONOMIC MEASURES

REF: LIMA 4655

SUMMARY: PERUVIAN FINANCE MINISTER WALTER PIAZZA WENT
ON NATIONWIDE TELEVISION EVENING JUNE 10 TO DISCUSS
PERU'S CURRENT ECONOMIC PLIGHT AND ANNOUNCE NEW "EMERGENCY"
PROGRAM TO CONFRONT SITUATION. WIDESPREAD ANTICIPATION
OF MEASURES, UNDRAMATIC AND SOMEWHAT UNSPECIFIC PRESEN-
TATION OF THEM BY PIAZZA AND THE GOVERNMENT'S SECURITY
PRECAUTIONS APPEAR TO HAVE COMBINED TO AVOID VIOLENT
REACTION TO NEW PROGRAM. AS OF A.MBMHAUNE 11 LIMA AND
SURROUNDING AREAS APPEAR CALM. END SUMMARY.

1. FOLLOWING SEVERAL WEEKS OF ANTICIPATION, WITH RUMORS
BUILDING TO CRESCENDO IN LAST FEW DAYS, PIAZZA SPOKE
TO THE NATION LATE EVENING JUNE 10 TO DESCRIBE COUNTRY'S
CURRENT ECONOMIC SITUATION, JUSTIFY THE NEED TO ADOPT
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STRONG MEASURES TO OVERCOME THE CRISIS AND ANNOUNCE
WHAT HE CALLED AN EMERGENCY ECONOMIC PROGRAM. WHILE
PIAZZA'S 45 MINUTE TALK WAS IN SIMPLE STRAIGHT-FORWARD
LANGUAGE, DEVOID OF THE COMPLEX TERMINOLOGY AND ELABORATE
CHARTS AND GRAPHS USED ON SIMILAR OCCASIONS BY HIS PRE-
DECESSOR, HE DID NOT GIVE SPECIFICS ON LARGE PART OF
THE PROGRAM.

2. THE EMERGENCY PROGRAM OUTLINED BY PIAZZA CONSISTS IN THE FOLLOWING ELEMENTS: A REDUCTION IN PERU'S PUBLIC SECTOR DEFICIT, A REDUCTION IN PERU'S BALANCE OF PAYMENTS DEFICIT, AND LEGALLY-SPECIFIED WAGE INCREASES TO OFFSET THE IMPACT OF HIGHER TRANSPORTATION AND FOODSTUFF COSTS.

3. THE PUBLIC SECOTR FINANCIAL DEFICIT IS TO BE CUT FROM S/. 55 BILLION TO THE RANGE S/. 30-35 BILLION TO TAKE EFFECT OVER THE NEXT SEVEN MONTHS. THIS IS TO BE ACCOMPLISHED BY A ONE YEAR FREEZE ON PUBLIC SECTOR EMPLOYMENT AND THE PURCHASE OF CERTAIN GOOD, SUCH AS AUTOMOBILES AND OFFICE EQUIPMENT. THE DECREE LAW IN THIS REGARD CUTS THE CENTRAL GOVERNMENT'S, INCLUDING THE ARMED FORCES, EXPENDITURE BUDGE BY 8 PERCENT (S/. 12.4 BILLION). PETROPERU'S DECITI IS TO BE REDUCED BY IMMEDIATE INCREASES IN THE PRICE OF GASOLINE AND OTHER PETROLEUM PRODUCTS. THE NEW GASOLINE PRICES ARE S/. 75 (\$.95) PER GALLON OF 84 OCTANE GASOLINE AND S/.110 (\$1.40) PER GALLON OF 95 OCTANE GASOLINE, INCREASES OF 50 PERCENT AND 37.5 PERCENT RESPECTIVELY. IT IS NOTED THAT PETROPERU'S DEFICIT IN 1977 WAS ESTIMATED AT S/. 12 BILLION PRIOR TO THE INCREASE IN PRICES OF PETROLEUM PRODUCTS.

4. IN REGARD TO PERU'S BALANCE OF PAYMENTS, PUBLIC SECTOR IMPORTS ARE TO BE REDUCED BY \$ 200 MILLION (OR APPROXIMATELY 28 PERCENT FROM THE LEVEL PROJECTED IN NOVEMBER 1976). THE MINI-DEVALUATIONS LIMITED OFFICIAL USE

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ARE TO BE CONTINUED AND THE GOP WILL CONTINUE TO SEEK \$ 250 MILLION IN EXTERNAL CREDIT TO COVER THE 1977 B/P DEFICIT.

5. INCREASES IN SPECIFIC FOODSTUFF PRICES HAVE NOT BEEN ANNOUNCED; HOWEVER, BUS FARES HAVE BEEN INCREASED BY S/.2--AN INCREASE OF ONE-THIRD. INASMUCH AS THE INCREASE OF THE COST OF PETROLEUM PRODUCTS AND THE ALSO ANNOUNCEDREMOVAL OF FOODSTUFF SUBSIDIES WILL INCREASE THE COST OF TRANSPORTATION AND FOOD, THE EMERGENCY PROGRAM UNDERTAKES TO COMPENSATE WORKERS FOR THE LOSS IN PURCHASING POWER. THE AUSTERITY PACKAGE INCLUDES A RATHER COMPLEX DECREE LAW PROVIDING FOR WAGE INCREASES "IN ORDER TO PROTECT WORKER' PURCHASING POWER" BUT WITHIN "THE POSSIBILITIES OF THE ECONOMIC RECOVERY PROGRAM". THE WAGE INCREASES IN THE PRIVATE SECTOR ARE GRANTED ON A GRADUATED SCALE WHICH SIGNIFIES A 15 PERCENT INCREASE FOR THOSE EARNING UP TO S/.4,500 PER MONTH. FOR THOSE EARNING S/.9,000 PER MONTH, THE INCREASE IS S/.810 PER MONTH.

FOR THOSE EARNING S/.13,500 PER MONTH, THE INCREASE IS S/.900 PER MONTH. THE RELATIVELY WELL PAID WORKER EARNING S/.18,000 PER MONTH WILL RECEIVE AN AUTOMATIC INCREASE OF S/.990 PER MONTH TO PARTIALLY COMPENSATE FOR PRICE INCREASES.

6. THERE ARE EXCEPTIONS. WORKERS UNDER COLLECTIVE CONTRACT, FOR EXAMPLE, RECEIVE WAGE INCREASE ONLY IN ACCORDANCE WITH CONTRACT TERMS. THE EFFECTIVE FREEZE ON COLLECTIVE BARGAINING DUE TO EXPIRE JULY 1 HAS NOT BEEN FURTHER EXTENDED AS SOME LABOR LEADERS FEARED. POST JULY 1 NEGOTIATED WAGE INCREASES, HOWEVER, ARE SUBJECT TO A LIMITATION OF S/. 2,400 PER MONTH. OR IN EXCEPTIONAL CASES OF PROFITABILITY S/. 3,000 PER MONTH. THESE INCREASES WILL IN EFFECT INCLUDE THE AUTOMATIC PAY RAISE AND NOT BE IN ADDITION TO IT.

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7. THE TERMS AND IMPACT OF THE AUSTERITY PACKAGE DISCUSSED GENERALLY BY PIAZZA MAY NOT HAVE BEEN IMMEDIATELY APPARENT TO ALL. THE EMBASSY HAS RECEIVED NO WORD OF PUBLIC PROTEST AND JUNE 11 IS A TYPICAL, QUIET LIMA SATURDAY. SHOULD ADVERSE REACTION DEVELOP, IT WOULD PROBABLY BEGIN ON MONDAY.

8. PIAZZA KICKED OFF THIS PRESENTATION WITH A RECITAL OF THE HARD FACTS OF PERU'S ECONOMIC SITUATION WHICH HE OUTLINED AS EXCESSIVE INFLATION, PUBLIC SECTOR FINANCIAL DEFICIT, LACK OF LIQUIDITY (CREDIT) AND A BALANCE OF PAYMENTS DEFICIT. HE ASSERTED THAT ALTHOUGH THE INITIAL GOAL FOR CONTAINMENT OF INFLATION IN 1977 WAS FOR A 15 PERCENT INCREASE, A 25 PERCENT RATE IS NOW MORE PROBABLE. THE PUBLIC SECTOR FINANCIAL DEFICIT WAS SET INITIALLY AT S/.55 BILLION, AND REJECTED PETITIONS FOR EXPENDITURES WOULD HAVE INCREASED THE DEFICIT TO S/.80 BILLION. TO COVER THE LATTER DEFICIT WOULD REQUIRE A 50 PERCENT INCREASE IN TAX REVENUES. FOR THIS REASON EXPENDITURES HAVE TO BE REDUCED. LACK OF LIQUIDITY FOR THE PRIVATE SECTOR RESULTS FROM THE EROSION EFFECT OF INFLATION ON WORKING CAPITAL AND FROM BLOATED PUBLIC SECTOR CREDIT DEMANDS. HE STATED THAT PERU'S EXTERNAL DEBT SERVICE FOR 1977 WAS 40 PERCENT OF EXPORT EARNINGS, ONE OF THE HIGHEST IN THE WORLD, AND THAT ITS EXTERNAL DEBT COULD NOT BE EXPANDED.

9. AT A MORE PHILOSOPHICAL LEVEL, PIAZZA ALSO HIT HARD AT THE GROWTH OF THE STATE'S BUREAUCRATIC APPARATUS, INADEQUATE PLANNING, THE INEFFICIENCY OF GOVERNMENTAL MANAGEMENT AND STATE ENTERPRISES, AND TAX EVASION, WHICH

HE BLAMED FOR HAVING PRODUCED ECONOMIC STAGNATION THROUGH
INFLATION AND LOW SAVINGS. IN GENERAL HE EXPOUNDED A
CAPITALIST POSITION IN REGARD TO THE ROLE OF PRIVATE
ENTERPRISE, I.E. PROFITS AS A REWARD FOR RISK-TAKING
ARE NOT EMBARRASSING OR ANTI-SOCIAL.
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10. COMMENT: A. WILL PROGRAM AID PERU TO OBTAIN
AN IMF STAND-BY AGREEMENT? ALTHOUGH THE PROGRAM DOES
NOT MEET ALL REQUIREMENTS REQUESTED BY MARCH IMF MISSION,
WE SUSPECT IT GOES AT LEAST HALF WAY. THE PLUS IS IN
REGARD TO RESTORATION OF DOMESTIC FINANCIAL EQUILI-
BRIUM AND THE MINUS IS IN REGARD TO MAINTENANCE OF
IMPORT RESTRICTIONS, BUT HERE MUCH DEPENDS ON JUST WHAT
PUBLIC SECTOR IMPORTS ARE CUT.

B. A GASOLINE PRICE HIKE AND OTHER EMERGENCY
ECONOMIC MEASURES OF JULY 1976 PRODUCED IMMEDIATE BUS
AND TRANSPORT STRIKE AND SIMULTANEOUS PUBLIC PROTEST.
THIS TIME THE GOV HAS PROVIDED FOR FARE INCREASES TO
COMPENSATE DRIVERS AND KEEP TRANSPORT MOVING. ALSO,
THE UNION RECALLS THAT ITS JULY 1976 STRIKE WAS FORCE-
FULLY BROKEN. PUBLIC PROTEST OF INCREASES (GASOLINE,
FOOD, BUS FARES) IS LESS PREDICTABLE BUT THE GOV IS
PREPARED TO ACT FIRMLY TO CONTAIN THE FIRST SIGN OF
VIOLENCE. LEFTIST GROUPS WHICH MIGHT MOVE TO TAKE
ADVANTAGE OF SPONTANEOUS PROTEST MAY BE TOO FRAGMENTED
AND DISORGANIZED TO INITIATE OR LEAD IT.

C. ORGANIZED LABOR WILL NOT BE HAPPY WITH THE WAGE
LIMITATIONS BUT EXPECTED THEM. COLLECTIVE BARGAINING
IS AT LEAST PERMITTED AND UNIONS MUST PREPARE FOR THE
EFFORT TO SECURE THE MAXIMUM. SOME FEARED THAT THE GOV
WOULD INCLUDE LEGISLATION REDUCING JOB SECURITY IN ITS
AUSTERITY PACKAGE. IT DID NOT. ADVERSE LABOR REACTION
WOULD HAVE FOCUSED ON THAT PROVISION, NOW LABOR CAN STILL
HOPE TO MODIFY IT.

11. TEXT OF SPEECH BEING POUCHED ARA/AND/P FULLER.
DEAN

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